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331.252 Montana. Teachers'  
T1R Retirement System  
1993/94 Annual report  
fiscal years ended  
June 30

# MONTANA

## Teachers' Retirement System

Component Unit of the State of Montana



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# ANNUAL REPORT

FISCAL YEARS ENDED JUNE 30, 1994 AND 1993

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Marc Racicot, Governor

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# TEACHERS' RETIREMENT SYSTEM



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MARC RACICOT, GOVERNOR

## STATE OF MONTANA

October 28, 1994

Honorable Marc Racicot  
Governor of Montana  
Room 204, State Capitol  
Helena, MT 59620

Dear Governor Racicot:

On behalf of the Montana Teachers' Retirement Board, it is my pleasure to submit to you the 1994 Financial Report for the Teachers' Retirement System.

In its 57th year of operation, the Montana Teachers' Retirement System has assets with a market value in excess of \$1 billion. The growth in the Retirement System continues to be steady. At fiscal year's end, the active membership exceeded 17,400 members and annuitants totaled over 7,100 receiving pension benefits in excess of \$5.6 million per month. The financial integrity and actuarial soundness of the system are attested by the accompanying reports.

The Board is committed to assuring that the retirement funds are managed prudently for the sole benefit of the members.

Sincerely,

A handwritten signature in cursive script, appearing to read "David L. Senn".

David L. Senn  
Executive Director

DLS:pe



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**THE TEACHERS' RETIREMENT SYSTEM  
DIRECTORS AND OFFICERS**

**BOARD OF DIRECTORS**

JAMES COWAN CHAIRMAN	07-01-92 to 07-01-96	P.O. Box 369 Seeley Lake, MT 59868
DR. RICK STUBER	07-01-94 to 07-01-98	P. O. Box 615 Culbertson, MT 59218
E. JOSEPH CROSS	07-01-91 to 07-01-95	2518 Augusta Lane Billings, MT 59102
JOHN U. KRANICK	07-01-93 to 07-01-97	116 River View C Great Falls, MT 59404
SHARON OFTEDAL	07-01-93 to 07-01-97	Broadus Stage Miles City, MT 59301
NANCY KEENAN	Ex Officio	Superintendent of Public Instruction State Capitol Helena, MT 59620

**ADMINISTRATIVE OFFICERS**

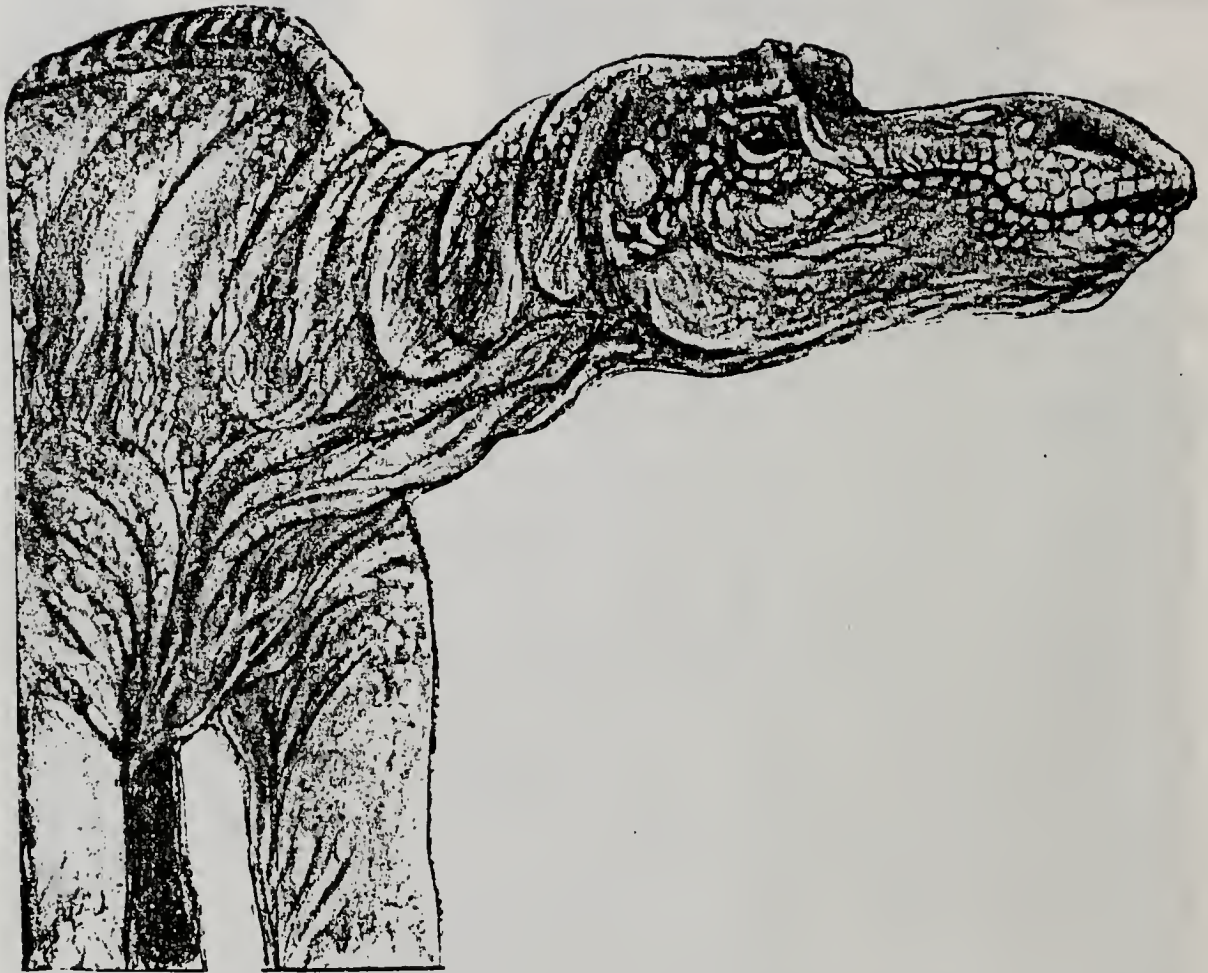
DAVID L. SENN	Administrator
GARY WARREN	Assistant Administrator

**PROFESSIONAL CONSULTANTS**

MILLIMAN & ROBERTSON, INC.	Actuaries & Consultants Seattle, WA 98101
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# FINANCIAL SECTION



**INDEPENDENT AUDITOR'S REPORT**

**BALANCE SHEET**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND BALANCE**

**NOTES TO FINANCIAL STATEMENTS**

STATE OF MONTANA

Office of the Legislative Auditor

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LEGISLATIVE AUDITOR:  
SCOTT A. SEACAT

LEGAL COUNSEL:  
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Teachers' Retirement System, a component unit of the state of Montana, for each of the two fiscal years ended June 30, 1993 and 1994 listed in the table of contents. The information contained in these financial statements is the responsibility of the system's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers' Retirement System at June 30, 1994 and 1993, and the results of its operations for the years then ended.

The trend information contained in Table 8 on page 32 and in the schedules on page 59 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The other data included in this report have not been audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,



James Gillett, CPA  
Deputy Legislative Auditor

November 1, 1994

**TEACHERS' RETIREMENT SYSTEM  
COMPONENT UNIT OF THE STATE OF MONTANA  
BALANCE SHEET  
AS OF JUNE 30, 1994 AND 1993**

	<u>1994</u>	<u>1993</u>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 3,755,110	\$ 1,148,775
Accounts Receivable	11,277,369	10,553,367
Interest Receivable	<u>12,573,660</u>	<u>12,621,933</u>
Total Current Assets	27,606,139	24,324,075
Investments (Note A):		
Mortgages	\$ 41,200,677	\$ 45,120,945
Securities	443,845,158	457,681,214
Common Stock	301,819,215	248,338,143
Other Investments	186,450,139	150,425,416
Land and Buildings	193,844	193,844
Less: Accum. Depreciation	<u>(90,955)</u>	<u>(87,191)</u>
Total Investments	973,418,078	901,672,371
Other Assets:		
Intangible Assets	\$ 118,165	\$ 56,160
Equipment	158,859	143,849
Less: Accum. Depreciation	(80,269)	(63,855)
Deferred Losses	<u>(755,293)</u>	<u>(1,042,136)</u>
Total Other Assets	<u>(558,538)</u>	<u>(905,982)</u>
<b>TOTAL ASSETS</b>	\$1,000,465,679	\$925,090,464
<b>LIABILITIES</b>		
Accounts Payable	\$ 637,444	\$ 641,736
Accrued Expenditures	20,000	18,789
Payroll Clearing	3,037	3,037
Accountability for Adv. (Note A)	70,886	196,639
Compensated Absences (Note A)	30,372	22,830
Property Held in Trust	5,572	(577)
Long Term Debts Payable	<u>105,198</u>	<u>76,915</u>
<b>TOTAL LIABILITIES</b>	<u>872,509</u>	<u>959,369</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<u>\$999,593,170</u>	<u>\$924,131,095</u>

The accompanying notes are an integral part  
of these financial statements.

**TEACHERS' RETIREMENT SYSTEM  
COMPONENT UNIT OF THE STATE OF MONTANA  
BALANCE SHEET  
AS OF JUNE 30, 1994 AND 1993**

	<u>1994</u>	<u>1993</u>
<b>FUND BALANCE (Note C)</b>		
Actuarial present value of projected benefits to:		
Retirees and beneficiaries currently receiving benefits	\$ 736,051,087	\$ 634,549,416
Terminated employees not yet receiving benefits	32,518,975	33,778,152
Current employees:		
Accumulated employee contributions	459,775,565	439,208,159
Employer-financed:		
Vested	342,269,591	424,421,945
Nonvested	<u>15,485,479</u>	<u>21,111,397</u>
Total actuarial present value of credited projected benefits	\$1,586,100,697	\$1,553,069,069
Unfunded Pension Benefit Obligation (PBO)	<u>(586,507,527)</u>	<u>(628,937,974)</u>
<b>TOTAL FUND BALANCE</b>	<u>\$ 999,593,170</u>	<u>\$ 924,131,095</u>

The accompanying notes are an integral part  
of these financial statements.



**TEACHERS' RETIREMENT SYSTEM  
COMPONENT UNIT OF THE STATE OF MONTANA  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 1994 AND 1993**

	<u>1994</u>	<u>1993</u>
<b>OPERATING REVENUES</b>		
Member Contributions	\$ 38,748,884	\$ 37,249,490
Employer Contributions	39,164,487	38,088,280
Investment Earnings	<u>73,073,714</u>	<u>78,375,511</u>
Total Operating Revenues	\$150,987,085	\$153,713,281
<b>OPERATING EXPENSES</b>		
Benefit Payments	\$ 70,580,682	\$ 66,012,320
Withdrawals	4,156,137	3,971,610
Administrative Expense (Note F)	<u>846,164</u>	<u>769,820</u>
Total Operating Expenses	\$ 75,582,983	\$ 70,753,750
<b>OPERATING TRANSFERS IN</b>		
Public Employees Retirement System	43,358	112,520
Income Transfers	<u>0</u>	<u>1,586,710</u>
Total Transfers In	<u>43,358</u>	<u>1,699,230</u>
<b>OPERATING INCOME</b>	\$ 75,447,460	\$ 84,658,761
<b>BEGINNING FUND BALANCE</b>	924,131,095	839,019,471
Adjustments to Fund Balance	0	186
Prior Year Adjustments	<u>14,615</u>	<u>452,677</u>
<b>ENDING FUND BALANCE</b>	<u>\$999,593,170</u>	<u>\$924,131,095</u>

The accompanying notes are an integral part  
of these financial statements

**TEACHERS' RETIREMENT SYSTEM  
COMPONENT UNIT OF THE STATE OF MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
FISCAL YEARS ENDED JUNE 30, 1994 AND 1993**

**NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Teachers' Retirement System, discretely presented component unit of the State of Montana financial reporting entity, maintains its accounts on the full accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

**Valuation of Investments**

Short-term investments and state securities are recorded at cost. Federal and corporate securities are stated at par value decreased by unamortized discounts amounting to \$132,690,305 in fiscal year 1994 and \$163,310,918 in fiscal year 1993. Mortgages were decreased by unaccumulated mortgage discount of \$43,533 in fiscal year 1994 and \$55,878 in fiscal year 1993.

The market value of the various investments at June 30, 1994 and 1993, was as follows:

	<u>1994</u>	<u>1993</u>
Montana Common Stock Pool	\$357,414,547	\$306,260,991
Montana Convertible Pool	38,254,615	22,852,832
Short-Term Investment Pool	44,205,000	49,752,200
Other Common Stock	1,471,500	121,500
Securities:		
U.S. Government	\$157,218,951	\$134,480,539
Corporate Bonds	<u>446,227,258</u>	<u>512,765,628</u>
Securities Subtotal	603,446,209	647,246,167
Other Investments	24,047,484	14,074,651
Montana Mortgages	41,244,210	45,120,945
Land and Buildings	<u>102,889</u>	<u>106,653</u>
	<u>\$1,110,186,454</u>	<u>\$1,085,535,939</u>

**Gains and Losses on Bond Swaps**

The deferral and amortization method was used for accounting for gains and losses on bond swaps. The unamortized deferred gains or losses are netted against the investment account and written off over the life of either the bond sold or acquired, whichever is less.

### **Compensated Absences**

Compensated absences represent 100 percent of accrued vacation and 25 percent of accrued sick leave for division personnel at June 30, 1994 and June 30, 1993.

### **Accountability for Advances**

Accountability for advances represents the liability associated with amounts received as an advance from other accounting entities or other governments at June 30, 1994 and June 30, 1993.

### **Minnie Fullam Fund**

The TRS financial statements do not include the Minnie Fullam (MF) Fund, a legacy fund that is administered by the Teachers' Retirement System. The MF financial statements are presented below:

#### **Minnie Fullam Fund Balance Sheet As of June 30, 1994 and 1993**

	<u>1994</u>	<u>1993</u>
Assets:		
Cash	\$ 281	\$ 533
MT Common Stock Pool	22,064	22,064
Short Term Investments	<u>27,300</u>	<u>24,300</u>
Total Assets	<u>\$49,645</u>	<u>\$46,897</u>
 Total Fund Balance	 <u>\$49,645</u>	 <u>\$46,897</u>

#### **Minnie Fullam Fund Statement of Revenues, Expenses, and Changes in Fund Balance For the Fiscal Years Ended June 30, 1994 and 1993**

	<u>1994</u>	<u>1993</u>
Investment Revenue	\$ 2,768	\$ 2,664
Ad Investment Exp	(20)	0
Beginning Fund Balance	<u>46,897</u>	<u>44,233</u>
Ending Fund Balance	<u>\$49,645</u>	<u>\$46,897</u>

## NOTE B. DESCRIPTION OF PLAN

The Teachers' Retirement Board is the governing body of a mandatory multiple-employer, cost-sharing system which provides retirement services to all persons in Montana employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the university system. The System was established by the State of Montana in 1937 and is governed by Title 19, Chapter 20, of the Montana Code Annotated.

At June 30, 1994, the number and type of employers participating in the System was as follows:

Local School Districts	415
Community Colleges	3
University System Units	6
Vo-Techs	5
State Agencies	<u>6</u>
Total	<u>435</u>

At June 30, 1994, the System membership consisted of the following:

Retirees and Beneficiaries	
Currently Receiving Benefits	7,198
Terminated Employees Entitled to	
But Not Yet Receiving Benefits	6,874
Current Members:	
Vested	10,050
Nonvested	<u>7,389</u>
Total Membership	<u>31,511</u>

The pension plan provides retirement benefits and death and disability benefits. Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to 1/60 times creditable service years times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

Effective January 1, 1988, university system employees eligible to participate in the Teachers' Retirement System could elect to participate in an Optional Retirement Plan established by the Board of Regents. As of July 1, 1994, a total of 1,115 eligible university system employees have elected to participate in the Optional Retirement Plan. Effective July 1, 1993, membership in the Optional Retirement Plan is mandatory for new employees to the university system unless they are already a member of the Teachers' Retirement System.

Effective January 1, 1990, certain members of the Teachers' Retirement System are eligible to receive a post retirement adjustment (PRA). The PRA is funded by annual investment earnings in excess of the required 8%. To be eligible, a retiree or beneficiary must be at least 55 years of age or be receiving a disability or survivor allowance and have been receiving a monthly benefit for 24 months preceding June 30 each year. In fiscal year 1994, \$2,879,550 was disbursed to eligible recipients.



## NOTE C. FUNDING STATUS AND PROGRESS

The pension benefit obligation is a standardized disclosure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons with other public employee retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the System.

The pension benefit obligation was determined as part of an actuarial valuation at July 1, 1994. Significant actuarial assumptions at June 30, 1994 include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, and (b) total projected salary increases of 6.5%. These same assumptions were used in the actuarial valuation at July 1, 1992. An actuarial valuation of the liabilities of the system as of June 30, 1993 was not performed; instead, the pension benefit obligation as of June 30, 1993 was estimated on the actuarial valuation prepared as of June 30, 1992.

At June 30, 1994 and 1993, the unfunded pension benefit obligation was as follows:

	<u>1994</u>	<u>1993</u>
Pension Benefit Obligation:		
Retirees and beneficiaries currently receiving benefits	\$ 736,051,087	\$ 634,549,416
Terminated members entitled to but not yet receiving benefits	32,518,975	33,778,152
Current employees:		
Accumulated employee contributions	459,775,565	439,208,159
Employer-financed vested	342,269,591	424,421,945
Employer-financed nonvested	<u>15,485,479</u>	<u>21,111,397</u>
Total Pension Benefit Obligation	\$1,586,100,697	\$1,553,069,069
Net Assets Available for Benefits at Cost		
(Market Value 1994 - \$1,136,361,547)	<u>999,593,170</u>	<u>924,131,095</u>
(Market Value 1993 - \$1,107,994,664)		
Unfunded Pension Benefit Obligation	<u>\$ 586,507,527</u>	<u>\$ 628,937,974</u>

## NOTE D. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The TRS funding policy provides for periodic employer and employee contributions at rates specified by State Law. An actuary determines the actuarial implications of the funding requirement in biennial actuarial valuations. The actuarial method used to determine the implications of the statutory funding level is the entry age normal funding method, with both normal cost and amortization of the accrued liability determined as a level percentage of payroll. The actuarial valuation prepared as of July 1, 1994, the most recent valuation date, indicates the statutory rate was sufficient to fund the normal cost and to amortize the unfunded accrued liability under the entry age normal method over 31.7 years. During fiscal years 1994 and 1993, no changes were made in the method used to calculate or establish contribution requirements, nor were there any changes in the law affecting benefits.

Actual contributions made to the System during the fiscal year ending June 30, 1994 and 1993, were as follows:

	<u>1994</u>	<u>1993</u>
Covered payroll	\$440,462,948	\$445,390,838
Employer contributions	\$ 39,164,488	\$ 38,088,280
--% of covered payroll(R)	7.470%	7.459%
--% of covered payroll(A)	8.892%	8.552%
Employee contributions	\$ 38,748,883	\$ 37,249,490
--% of covered payroll(R)	7.044%	7.044%
--% of covered payroll(A)	8.797%	8.363%

(R) Contributions required by statute.

(A) Actual contributions.

Employer contributions include transfers from the Public Employees' Retirement System.

## NOTE E. HISTORICAL TREND INFORMATION

### ANALYSIS OF FUNDING PROGRESS

	<u>As of June 30</u>						
	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>
Net assets available for benefits as a % of PBO	63.0%	59.5%	57.9%	57.7%	57.1%	56.4%	56.2%
Unfunded PBO as a % of annual covered payroll	133.2%	141.2%	143.6%	138.2%	130.6%	133.2%	128.6%
Employer contributions as a % of annual covered payroll	8.892%	8.552%	8.411%	8.231%	7.734%	7.428%	7.428%

## NOTE F. ADMINISTRATIVE EXPENSES

Administrative expenses for the years ended June 30, 1994 and 1993, are outlined below:

	<u>1994</u>	<u>1993</u>
Personal Services:		
Salaries	\$251,292	\$248,596
Other compensation	2,250	2,750
Employee benefits	<u>65,933</u>	<u>64,075</u>
Total Personal Services	\$319,475	\$315,421
Operating Expenses:		
Contracted services	\$150,968	\$111,856
Supplies and materials	13,397	18,046
Communications	37,062	35,263
Travel	7,814	11,176
Rent	45,345	44,194
Repair and maintenance	11,954	5,934
Other expenses	8,140	2,544
Equipment	165	242
Intangible Assets	0	74
Long Term Debt Expense	10,308	8,194
Compensated Absence	2,976	5,555
Depreciation	20,368	18,171
Amortization	<u>19,508</u>	<u>4,495</u>
Total Operating Expense	\$328,005	\$265,744
Investment Expense	<u>198,684</u>	<u>188,655</u>
Total Administrative Expense	<u>\$846,164</u>	<u>\$769,820</u>

During fiscal year 1992, TRS solicited proposals for a new data processing system. Sixty monthly payments of \$5,092.08 began on November 29, 1992 and conclude October 29, 1997 for a total debt of \$305,524.80 which includes principle and interest of \$271,279.34 and \$34,245.46 respectively.





# **ACTUARIAL SECTION**

## **ANALYSIS OF VALUATION**

- 1. SUMMARY OF THE FINDINGS**
- 2. SCOPE OF THE REPORT**
- 3. ASSETS**
- 4. ACTUARIAL LIABILITIES**
- 5. EMPLOYER CONTRIBUTIONS**
- 6. ACTUARIAL INFORMATION FOR ACCOUNTING PURPOSES**

**TABLES**

**APPENDICES**





## **Teachers' Retirement System Analysis of Valuation**

### **Section 1: Summary of the Findings**

As a result of the actuarial valuation of the benefits in effect under the Montana Teachers' Retirement System (TRS) as of July 1, 1994, Milliman & Robertson recommends that the current employer contribution rate, 7.47% of members' salaries, remain in effect.

This rate is sufficient to meet the actuarial cost of the System accruing on the valuation date and to amortize the unfunded actuarial liability over 31.7 years. The actuarial costs are calculated using the entry age actuarial cost method.

The July 1, 1992 actuarial valuation found that the period then required to amortize the unfunded actuarial liability was 34.9 years. Thus, the expected amortization period as of July 1, 1994 was two years less, 32.9 years. The actual amortization period as of July 1, 1994 is less than the expected period because of net actuarial losses during the past two years, which were offset by gains due to the adoption of new assumptions.

### **Section 2: Scope of the Report**

This report presents the actuarial valuation of the Montana Teachers' Retirement System as of July 1, 1994.

A summary of the findings resulting from this valuation is presented in the previous section. Section 3 describes the assets of the System. A summary of the assets is set forth in Table 1. Sections 4 and 5 describe how the obligations of the System are to be met under the actuarial cost method in use.

Section 6 discloses actuarial information based on the requirements of Statement No. 5 of the Governmental Accounting Standards Board.

The actuarial procedures and assumptions used in this valuation are described in Appendix A.

The current benefit structure, as determined by the provisions of the governing law on January 1, 1994, is summarized in Appendix B. Schedules of valuation data classifying the data used in the valuation by various categories of contributing members, former contributing members, and beneficiaries make up Appendix C.

Appendix D provides a brief summary of the System's recent experience. Comparative statistics are presented on the System's membership and contribution rates. Appendix E is a glossary of actuarial terms used in this report.

### **Section 3: Assets**

In many respects, an actuarial valuation can be regarded as an inventory process. The inventory is taken as of the actuarial valuation date, which for this valuation is July 1, 1994. On that date the assets available for the payment of benefits are appraised. These assets are compared with the

actuarial liabilities, which are generally well in excess of the assets. The actuarial process thus leads to a method of determining what contributions by members and their employers are needed to strike a balance.

For the July 1, 1989 valuation, the prior actuary adopted a new asset valuation method based on a three-year smoothing between the System's cost value and market value.

The total assets of the System are reduced by a minor portion that is set aside for the payment of current liabilities. The Fullam Fund is also excluded. The resulting net assets equal the total fund balance available for the payment of benefits.

Table 1 summarizes the actuarial value of the net assets available for benefits on July 1, 1994, based on the method adopted by the Board for the July 1, 1989 valuation. The actuarial value of net assets is 101.9% of the market value as of July 1, 1994.

#### **Section 4: Actuarial Liabilities**

In the previous section, an actuarial valuation was related to an inventory process, and an analysis was given of the inventory of assets of the System as of the valuation date, July 1, 1994. In this section, the discussion will focus on the commitments of the System, which will be referred to as its actuarial liabilities.

Table 2 contains an analysis of the actuarial present value of all future benefits for contributing members, for former contributing members, and for beneficiaries. The analysis is given by type of benefit and by sex.

The actuarial liabilities summarized in Table 2 include the actuarial present value of all future benefits expected to be paid with respect to each member. For an active member, this value includes a measure of both benefits already earned and future benefits to be earned. Thus, for all members, active and retired, the value extends over benefits earnable and payable for the rest of their lives and, if an optional benefit is chosen, for the lives of their surviving beneficiaries.

#### **Section 5: Employer Contributions**

In the previous two sections, attention has been focused on the assets and actuarial liabilities of the System. A comparison of Tables 1 and 2 indicates that there is a shortfall in current assets to meet the total actuarial liabilities. This is the universal experience in all but a fully closed-down fund, where no further contributions of any sort are anticipated.

In an active system, there will always be a difference between the actuarial liabilities and the assets. This difference has to be funded with future contributions and investment returns. An actuarial valuation sets a schedule of future contributions that will deal with this funding in an orderly fashion.

The method used to determine the incidence of the contributions in various years is called the actuarial cost method. For this valuation, the entry age actuarial cost method has been used. Under this method, or essentially any actuarial cost method, the contributions required to meet the difference between current assets and current liabilities are allocated each year between two elements:



A normal cost amount, which ideally is relatively stable as a percentage of salary over the years; and

Whatever amount is left over, which is used to amortize what is called the unfunded actuarial liability.

The two items described above, normal cost and unfunded actuarial liability, are the keys to understanding the actuarial cost method.

The normal cost is the theoretical contribution rate which will meet the ongoing costs of a group of average new employees. Suppose that a group of new employees were covered under a separate fund from which all benefits and to which all contributions and associated investment return were to be paid. Under the entry age actuarial cost method, the normal cost contribution rate is that level percentage of pay which would be exactly right to maintain this fund on a stable basis. If experience were to follow the actuarial assumptions exactly, the fund would be completely liquidated with the last payment to the last survivor of the group.

The normal cost rates by type of employee and by type of benefit under the System are summarized in Table 3. Prior assumptions did not specifically recognize a probability of refund of contributions upon termination of a vested member. The new assumption, shown in Table A-6, allows the termination benefits to be shown separately between expected refunds and expected vested retirements.

The normal costs as of July 1, 1992 and July 1, 1994 include .031% to fund the additional cost of the changes to the Vietnam service credit.

The term "fully funded" is often applied to a system where contributions for everyone at the normal cost rate will fully pay for the benefits of existing as well as new employees. More often than not, systems are not fully funded, either because of benefit improvements in the past which have not been completely paid for or actuarial deficiencies which have occurred because experience has not been as favorable as anticipated. Under these circumstances, an unfunded actuarial liability (UAL) exists.

Table 4 shows how the UAL was derived for the System. Lines A and B show, respectively, the total present value of future benefits and the portion of the future liability that is expected to be paid from future normal cost contributions, both employer and employee. Line C shows the actuarial liability: the portion of the present value of future benefits not provided by future normal cost contributions. Line D shows the assets available for benefits. Finally, Line E shows the unfunded actuarial liability.

As can be seen from this discussion, a key consideration in the adequacy of the funding of the System is how the UAL is being amortized. Table 5 shows that the current employer and member contribution rates are adequate to pay the total normal cost rate (9.494% of pay), with enough left over to amortize the UAL in 31.7 years. Therefore, the current basis is sufficient to meet future requirements.

The amortization of the UAL assumes continued contributions of 2.503% of pay for members of the Optional Retirement Program (ORP) until June 30, 2027. The 1993 legislation modified the ORP contribution rate to be set at 2.503% from July 1, 1993 through June 30, 1997, and, effective July 1, 1997 through June 30, 2033, an adjusted rate will be determined based on the actual experience of the members of the Montana university system. Until the adjusted rate is determined, Milliman & Robertson will assume contributions of 2.503% are payable until June 30, 2027, 40 years after the establishment of the ORP in accordance with the initial ORP funding requirements.

The unfunded actuarial liability at any date after establishment of a system is affected by any actuarial gains or losses arising when the actual experience of the system varies from the experience anticipated by the actuarial assumptions used in the valuations. To the extent actual experience as it develops differs from the assumptions used, so also will the actual emerging costs differ from the estimated costs.

In 1985 a target period of 40 years was established for the amortization of the unfunded liability generated at each valuation. Table 6 contains the schedule of unfunded actuarial liability accounts. Also shown is the employer contribution required to meet the 40-year goal, 14.881%. This exceeds the current statutory contribution of 14.514%. The funding target is not met by the current employer contribution rate. With an overall unfunded actuarial liability funding period of 31.7 years, however, we believe the System is actuarially sound and that increases to the statutory contribution rates are not required.

## **Section 6: Actuarial Information for Accounting Purposes**

Statement No. 5 of the Governmental Accounting Standards Board (GASB) requires disclosure of certain pension information by public employee retirement systems. Each system's funding status on a going-concern basis is determined by comparing its pension benefit obligation (PBO) to the net assets available to fund benefits. Each system is to analyze its funding progress by following the trend of its funding status.

The pension benefit obligation (PBO) is that portion of the actuarial present value of benefits attributable to service earned to date, adjusted for the effects of projected salary increases. It is intended as a standardized disclosure measure which will allow comparisons among different public employee retirement systems. The determination of the PBO is independent of the actuarial cost method, but is dependent upon the actuarial assumptions used to calculate the actuarial present values.

The PBO determined as of July 1, 1994 is shown in Table 7 and is based on the actuarial assumptions used in the valuation as described in Appendix A. It is analyzed separately for inactive members and annuitants and for active members. The active members' PBO is also divided between the employee-financed (accumulated member contributions) and employer-financed portions, with the employer-financed portion shown separately for benefits payable to vested and nonvested members.

The unfunded PBO is the excess of the PBO over the net assets available for benefits, determined in accordance with the method used to value assets for the System's balance sheet purposes. The net asset amount shown on line B was furnished to us, without audit, by the System. The unfunded PBO is shown on line C.

As shown in Table 8, the unfunded PBO has decreased from 141.2% of annual salaries as of July 1, 1993 to 133.2% of annual salaries as of July 1, 1994. The unfunded PBO expressed as a percentage of annual salaries helps to adjust for the effects of salary inflation in the dollar amounts of PBO.

The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, etc. Specifically, the July 1, 1994, PBO was based on the newly adopted assumptions, whereas the July 1, 1993, PBO was based on the previous assumptions. As a result of the change in assumptions, Milliman & Robertson estimated that the present value of the PBO is reduced by approximately 6%.

# Teachers' Retirement System

Table 1

## Summary of Assets

	Total Fund Balances		Cumulative Unrealized Gain	Increase During Year	Smoothing Weights	Smoothed Portions of Gain
	Cost Value	Market Value				
July 1, 1992	\$839,020,635	\$ 992,146,136	\$153,125,501	\$153,125,501	100.00%	\$153,125,501
July 1, 1993	\$924,131,095	\$1,107,994,664	\$183,863,569	\$ 30,738,068	66.67%	\$ 20,492,045
July 1, 1994	\$999,593,170	\$1,136,361,547	\$136,768,377	\$(47,095,192)	33.33%	\$(15,698,397)

## Actuarial Assets

July 1, 1994 Cost Value	\$ 999,593,170
Smoothed Portion of Gain	<u>157,919,149</u>
July 1, 1994 Actuarial Value	\$1,157,512,319

## Teachers' Retirement System

**Table 2**

### Actuarial Present Value of Future Benefits for Contributing Members, Former Contributing Members, and Beneficiaries

July 1, 1994

(All amounts are actuarial present values in millions)

	<u>Male</u>	<u>Female</u>	<u>Total</u>
<b>A. Active members</b>			
Service Retirement	\$ 530.0	\$ 645.0	\$1,175.0
Disability Retirement	13.5	18.3	31.8
Survivors' Benefits	27.9	12.6	40.5
Vested Retirement	11.8	21.0	32.8
Refund of Member Contributions	<u>14.9</u>	<u>24.5</u>	<u>39.4</u>
<b>Total</b>	<b>\$ 598.1</b>	<b>\$ 721.4</b>	<b>\$1,319.5</b>
<b>B. Inactive members and annuitants</b>			
Service Retirement	\$ 407.2	\$ 269.7	\$ 676.9
Disability Retirement	6.7	7.4	14.1
Beneficiaries*	6.4	38.7	45.1
Vested Terminated Participants	10.5	14.5	25.0
Nonvested Terminated Participants	<u>2.2</u>	<u>5.3</u>	<u>7.5</u>
<b>Total</b>	<b>\$ 433.0</b>	<b>\$ 335.6</b>	<b>\$ 768.6</b>
<b>C. Grand Total</b>	<b>\$ 1,031.1</b>	<b>\$ 1,057.0</b>	<b>\$2,088.1</b>

\* Includes survivors of active and retired members, and children's benefits.



## Teachers' Retirement System

**Table 3**

### Normal Cost Contribution Rates As Percentage of Salary

	July 1, 1994			July 1, 1992
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Total</u>
Service Retirement	5.926%	7.252%	6.687%	6.522%
Disability Retirement	0.237%	0.287%	0.265%	0.225%
Survivors' Benefits	0.411%	0.184%	0.280%	0.175%
Vested Retirement	0.541%	0.575%	0.560%	2.954%*
Refund of Member Contributions	<u>1.854%</u>	<u>1.589%</u>	<u>1.702%</u>	<u>- *</u>
Total	8.969%	9.887%	9.494%	9.876%

\* 1992 assumptions treated vested retirement and refund of member contributions as one category, termination benefits.

## Teachers' Retirement System

Table 4

### Unfunded Actuarial Liability (All dollar amounts in millions)

	<u>July 1, 1994</u>	<u>July 1, 1992</u>
A. Actuarial present value of all future benefits for present and former members and their survivors (Table 2)	\$ 2,088.1	\$ 1,821.8
B. Less actuarial present value of total future normal costs for present members	<u>375.2</u>	<u>287.9</u>
C. Actuarial liability	\$ 1,712.9	\$ 1,533.9
D. Less actuarial value of assets available for benefits (Table 1)	<u>1,157.5</u>	<u>954.5</u>
E. Unfunded actuarial liability	\$ 555.4*	\$ 579.4

\* Of this amount, approximately \$20.0 million will be paid by contributions to TRS of 2.503% of the salaries of the participants in the Optional Retirement Plan (ORP).

## Teachers' Retirement System

Table 5

### Recommended Contribution Rates As Percentage of Salary

	<u>July 1, 1994</u>	<u>July 1, 1992</u>
A. Employer contribution rate	7.470%	7.459%
B. Member contribution rate	<u>7.044%</u>	<u>7.044%</u>
C. Total contribution rate	14.514%	14.503%
D. Less total normal cost rate (Tabel 3)	<u>9.494%</u>	<u>9.876%</u>
E. Amount available to amortize unfunded actuarial liability*	5.020%	4.627%
F. Amortization period from July 1, 1994	31.7 years	32.9 years

\* In addition, 2.503% of salaries of the participants in the Optional Retirement Plan (ORP) is available to help amortize the unfunded actuarial liability.

## Teachers' Retirement System

**Table 6**

### Unfunded Actuarial Liability Amortization Schedule

<u>Date Established</u>	<u>Balance on July 1, 1992</u>	<u>Interest Charge on Balance</u>	<u>Contribution Allocated to Unfunded Liability</u>	<u>Interest Credit on Contribution<sup>A</sup></u>	<u>Balance on July 1, 1994</u>
July 1, 1985	\$717,612,330	\$119,410,692	\$60,334,033	\$4,849,465	\$771,839,524
July 1, 1987	(13,320,392)	(2,216,513)	(1,119,926)	(90,016)	(14,326,963)
July 1, 1989	(31,567,244)	(5,252,789)	(2,654,050)	(213,324)	(33,952,659)
July 1, 1992	(93,324,694)	(15,529,229)	(7,846,375)	(630,668)	(100,376,880)
July 1, 1994					<u>(67,783,022)</u>
					\$555,400,000

### Required Contribution Rates

<u>Date Established</u>	<u>Remaining Years to Fund</u>	<u>Required Amortization Rates</u>
July 1, 1985	31 Years	7.365%
July 1, 1987	33	(0.313)
July 1, 1989	35	(0.297)
July 1, 1992	38	(0.828)
July 1, 1994	40	<u>(0.540)</u>
		5.387%
Plus Normal Cost Rate		<u>9.494</u>
Total Contribution Rate		14.881%



# Teachers' Retirement System

Table 7

## Unfunded Pension Benefit Obligation (All dollar amounts in millions)

	July 1, 1994	July 1, 1993**
A. Pension Benefit Obligation		
Inactive members		
Retirees and beneficiaries	\$736,051,087	\$634,549,416
Other Terminated employees	<u>32,518,975</u>	<u>33,778,152</u>
Total Inactive	\$ 768,570,062	\$ 668,327,568
Active members		
Accumulated member contributions	\$459,775,565	\$439,208,159
Employer-financed vested	<u>342,269,591</u>	<u>424,421,945</u>
Employer-financed nonvested	<u>15,485,479</u>	<u>21,111,397</u>
Total Active	<u>817,530,635</u>	<u>884,741,501</u>
Total pension benefit obligation	\$1,586,100,697	\$1,553,069,069
B. Less net assets available for benefits*	<u>999,593,170</u>	<u>924,131,095</u>
C. Unfunded pension benefit obligation	\$ 586,507,527	\$ 628,937,974

\* Assets are valued at cost for the System's balance sheet purposes. Net assets are total assets less fund liabilities. Market value of net assets on January 1, 1994 is \$1,136,361,547.

\*\* July 1, 1993 values were based on the June 30, 1992 census, projected to July 1, 1993 on an approximate basis.

# Teachers' Retirement System

Table 8

## Analysis of Funding Progress

Reporting Date (July 1)	(1) Net Assets*	(2) Pension Benefit Obligation (PBO)	(3) Percentage of PBO Funded (1)/(2)	(4) Unfunded PBO (2)-(1)	(5) Annual Salaries	(6) Unfunded PBO as Percentage of Annual Salaries (4)/(5)
1989	\$624,755,142	\$1,107,492,899	56.4%	\$482,737,757	\$362,464,600	133.2%
1990	689,225,147	1,206,792,010	57.1	517,566,863	396,235,432	130.6
1991	761,462,699	1,320,000,000	57.7	558,537,301	404,256,229	138.2
1992	839,020,635	1,449,482,394	57.9	610,461,759	425,125,516	143.6
1993	924,131,095	1,553,069,069	59.5	628,937,974	445,390,838	141.2
1994	999,593,170	1,586,100,697	63.0	586,507,527	440,462,948	133.2

Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of a Retirement System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the retirement system. Trends in the unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of TRS's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the Retirement System.

\*Asset are valued at cost for the System's balance sheet purposes. Net assets are total assets less fund liabilities.

This comparative information is only available from FY 1989 to FY 1994.

## **APPENDIX A**

### **Actuarial Procedures and Assumptions**

The actuarial assumptions used in this valuation were adopted by the Board for the July 1, 1994 Actuarial Valuation. The assumptions were changed as a result of Milliman & Robertson's Investigation of Experience, July 1, 1989 - June 30, 1992. These assumptions are summarized in Table A-1.

Tables A-2 through A-5 gives rates of decrement for service retirement, disablement, mortality, and other terminations of employment. These rates of decrement are referred to in actuarial literature as the absolute rate of decrement, or  $q'x$ . Table A-6 shows the assumed probability of immediate refund of contributions among members terminating with five or more years of service.

#### **Actuarial Cost Method**

The actuarial valuation was prepared using the entry age actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of the individual's projected compensation between entry age and assumed exit. The portion of this actuarial present value allocated to valuation year is called the normal cost. The normal cost was first calculated for each individual member. The normal cost rate was defined to equal the total of the individual normal costs, divided by the total pay rate as of July 1, 1994.

The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the unfunded actuarial liability. The unfunded actuarial liability is amortized as a level percentage of the projected salaries of present and future members of the System.

#### **Records and Data**

The data used in the valuation consist of financial information; records of age, sex, service, salary, contribution rates, and account balances of contributing members; and records of age, sex, and amount of benefit for retired members and beneficiaries. All of the data were supplied by the System and are accepted for valuation purposes without audit.

#### **Replacement of Terminated Members**

The ages at entry and distribution by sex of future members are assumed to average the same as those of the present members they replace. If the number of active members should increase, it is further assumed that the average entry age of the larger group will be the same, from an actuarial standpoint, as that of the present group. Under these assumptions, the normal cost rates for active members will not vary with the termination of present members.

#### **Employer Contributions**

At the time of this valuation, the total employer contribution rate for normal costs and amortization of the unfunded actuarial liability was 7.470% of members' salaries.

## **Administrative Expense**

The administrative expenses of the System are assumed to be funded by investment earnings in excess of 8% per year.

## **Valuation of Assets - Cost Basis**

Bonds:	Bonds are valued at amortized book value.
Mortgages:	Mortgages are valued at par value.
Common Stocks:	Each issue of common stock is valued at cost.
Other Assets:	Other assets are carried on a cost basis.

Premiums and discounts are amortized using the straight-life method over the life of the securities (8 years for mortgages).

## **Valuation of Assets - Actuarial Basis**

The difference between the total market value of assets and the cost value of assets is added to the cost value on a 3-year smoothed basis.

## **Investment Earnings**

The annual rate of investment earnings of the assets of the System is assumed to be 8% per year, compounded annually.

## **Interest on Member Contributions**

Interest on member contributions is assumed to accrue at a rate of 6% per annum, compounded annually.

## **Postretirement Benefit Increases**

No future postretirement benefit increases are assumed.

## **Future Salaries**

The composite rate of future salary increases is assumed to be 6.5% per year, compounded annually. This is the sum of a 6.0% general wage increase assumption and an assumption of 0.5% individual salary increase due to promotion and longevity. This assumption was adopted July 1, 1994.

## **Benefits for Terminating Members**

Members terminating with less than five years of service are assumed to request an immediate withdrawal of their contributions with interest. Table A-6 shows the assumed probability of immediate refund of contributions among members terminating with five or more years of service. These rates were adopted July 1, 1994.



The data provided for current terminated vested members did not include their accrued benefit. We estimated each member's accrued benefit based on the available contribution account and service information.

### **Part-Time Employees**

The valuation data for active members identifies part-time members, but gives no indication as to the number of hours worked. As done in the past, we imputed a "part-time percentage" by comparing the pay received to the average pay for recently hired full-time members. Part-time members earning less than \$1,000 during the last year were valued at their current member contribution balance.

### **Optional Retirement Program**

The total contribution received based on ORP payroll for the fiscal year ending June 30, 1994 was \$787,837. Based on a contribution rate of 2.503%, we assumed the total ORP payroll for the fiscal year to be \$31,475,709 (\$787,837 divided by 2.503%).

# Teachers' Retirement System

## Table A-1

### Summary of Valuation Assumptions July 1, 1994

I.	Economic Assumptions	
	A. General Wage Increases	6.00%
	B. Individual salary Increase due to promotion & longevity	0.50%
	C. Investment Return	8.00%
	D. Growth In Membership	0.00%
	E. Postretirement Benefit Increases	0.00%
	F. Interest on Member Accounts	7.00%
II.	Demographic Assumptions	
	A. Retirement	Table A-2
	B. Disablement	Table A-3
	C. Mortality Among Contributing Members	Table A-4
	1983 Group Annuity Mortality (GAM) Table, with ages set back two years	
	D. Mortality among service retired and disabled members and beneficiaries	Table A-4
	1983 GAM Table, with ages set back one year	
	E. Other Terminations of Employment	Table A-5
	F. Refund of Contributions upon termination of vested members	Table A-6

# Teachers' Retirement System

Table A-2

## Retirement Annual Rates

<u>Age</u>	<u>Eligible for Reduced Benefits</u>	<u>1st year Eligible for Full Benefits</u>	<u>Service Retirement</u>
50	5.0%	15.4%	10%
51	5.3%	15.6%	10%
52	5.6%	15.8%	10%
53	6.0%	16.1%	10%
54	6.3%	16.4%	10%
55	6.7%	16.9%	12.5%
56	7.1%	17.4%	12.5%
57	7.5%	18.2%	12.5%
58	8.0%	19.1%	12.5%
59	8.5%	20.4%	12.5%
60 to 69	*	22.0	20.0%
70		**	**

\* All benefits are unreduced after attaining age 60.

\*\* Immediate retirement is assumed at age 70 or over.

## Teachers' Retirement System

**Table A-3**

### Disablement Annual Rates

<u>Age</u>	<u>Disablement</u>
25	.01%
30	.02%
35	.04%
40	.07%
45	.12%
50	.18%
55	.28%
60	.42%

**Table A-4**

### Mortality Annual Rates\*

<u>Age</u>	<u>Men</u>	<u>Women</u>
25	.05%	.03%
30	.06%	.03%
35	.09%	.05%
40	.12%	.07%
45	.22%	.10%
50	.39%	.16%
55	.61%	.25%
60	.92%	.42%
65	1.56%	.71%
70	2.75%	1.24%
75	4.46%	2.40%
80	7.41%	4.29%
85	11.48%	6.99%

\* Rates shown are set back one year for retirees and two years for active members.



## **Teachers' Retirement System**

**Table A-5**

### **Other Terminations of Employment Among Members Not Eligible to Retire Annual Rates**

<u>Age</u>	<u>Rate</u>
25	13.78%
30	11.41%
35	8.30%
40	5.84%
45	4.19%
50	3.60%
55	3.02%
60	2.67%

**Table A-6**

### **Refund of Contributions Upon Termination of Vested Members**

<u>Age</u>	<u>Probability of Immediate Refund</u>
25	60%
30	54%
35	48%
40	42%
45	36%
50	24%
55	0%

## **APPENDIX B**

### **Summary of Benefit Provisions**

<b>Effective Date</b>	September 1, 1937
<b>Vesting Period</b>	5 years. No benefits are payable unless the member has a vested right, except the return of employee contributions with interest.
<b>Final Compensation</b>	Average of highest 3 consecutive years of earned compensation.
<b>Normal Form of Benefits</b>	Life only annuity. All benefits cease upon death; however, in no event will the member receive less than the amount of employee contributions with interest.
<b>Normal Retirement Benefits</b>	
<b>Eligibility:</b>	25 years of service or age 60 and 5 years of service.
<b>Benefit:</b>	The retirement benefit is equal to 1/60 of final compensation for each year of service.
<b>Early Retirement Benefits</b>	
<b>Eligibility:</b>	5 years of service and age 50.
<b>Benefit:</b>	The retirement benefit is calculated in the same manner as described for normal retirement, but the benefit is reduced 1/2 of 1% for each of the first 60 months early and 3/10 of 1% for each of the next 60 months early.
<b>Death Benefit</b>	
<b>Eligibility:</b>	5 years of service.
<b>Benefit:</b>	The death benefit is equal to 1/60 of final compensation for each year of service accrued at date of death, with an actuarial adjustment based on the relation of the member's age at death to the beneficiary's age. A monthly benefit of \$200 is paid to each child until age 18. In addition, a lump-sum benefit of \$500 is paid upon the death of an active or retired member.

## Disability Benefit

### Eligibility:

5 years of service.

### Benefit:

The disability benefit is equal to  $1/60$  of final compensation for each year of service accrued at date of disability. The minimum benefit is  $1/4$  of the final compensation.

## Withdrawal Benefits

With less than 5 years of service, the accumulated employee contributions with interest are returned. With more than 5 years, the member may elect a refund of contributions with interest or leave the contributions and interest in the System and retain a vested right to retirement benefits.

## Tax Sheltered Annuity

The System sponsors a tax-deferred annuity program for the benefit of its members. The policies of this program have been established in accordance with the guidelines set by the Internal Revenue Service. The benefits provided by this program are determined solely by the value of the member's account (voluntary contributions plus interest) using actuarial tables provided by the Retirement Board.

## Contributions

Member: 7.044% of compensation.  
Employer: 7.470% of compensation.

## APPENDIX C

### Valuation Data

The valuation was based upon the membership of the System as of July 1, 1994. Membership data were supplied by the System and accepted for valuation purposes without audit. However, tests were performed to ensure that the data are sufficiently accurate for valuation purposes.

Table C-1 contains summaries of the data for contributing members. For full-time members, values shown in the tables are the numbers of members and their total and average annual salaries. For part-time members, only the numbers of members are shown. All information is shown separately for males and females.

<u>Members</u>	<u>Full-Time Members</u>	<u>Part-Time Members*</u>	<u>Total Contributing Members*</u>	<u>Annual Full- Time Salaries in Thousands</u>
Male	5,470	407	5,877	\$181,511
Female	<u>9,468</u>	<u>1,853</u>	<u>11,321</u>	<u>235,457</u>
Total	14,938	2,260	17,198	\$416,968

\*Excludes 377 part-time members with salaries under \$1,000.

Table C-2 presents distributions of the following:

- Members receiving service retirement benefits.
- Members receiving disability retirement benefits.
- Survivors of deceased retired members receiving benefits.
- Survivors of deceased active members.
- Child beneficiaries.
- Terminated vested members.

The valuation also includes liabilities attributable to nonvested members who have terminated employment but have not withdrawn their contributions. There are 5,722 such members.

<u>Type of Annuitant</u>	<u>Number</u>	<u>Annual Benefits In Thousands</u>
Service Retirement		
Male	2,820	\$ 41,162
Female	3,695	30,423
Disability Retirement		
Male	79	656
Female	130	776
Survivors of Deceased Retired Members		
Male	64	312
Female	346	2,570
Survivors of Deceased Active Members		
Male	104	440
Female	249	1,741
Child Beneficiaries	<u>43</u>	<u>103</u>
Total Annuitants	7,530	\$ 78,183



Table C-1

**Teachers' Retirement System**  
**Active Members - Full Time**  
**Distribution of Employees and Salaries as of July 1, 1994**  
**Number of Employees - By Age Group - Males**

Age	Completed Years of Service												Totals
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 +	
< 25	6	20	4	1									31
25 to 29	61	116	98	90	46								411
30 to 34	22	42	54	102	174	40							434
35 to 39	18	46	40	86	191	232	76						689
40 to 44	15	46	27	62	161	219	346	120					996
45 to 49	21	34	41	61	103	152	226	560	140				1,338
50 to 54	14	17	14	31	56	66	87	208	390	60			943
55 to 59	8	7	7	19	27	35	27	58	119	120	18		445
60 to 64	2	4	3	4	10	17	9	16	28	34	28	1	156
65 to 69	1	1			3	2	1	6	3	1	1		19
70 & up	1	1		2	1		1	1				1	8
Totals	169	334	288	458	772	763	773	969	680	215	47	2	5,470

**Number of Employees - By Age Group - Females**

Age	Completed Years of Service												Totals
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 +	
< 25	38	89	25										152
25 to 29	181	221	166	240	97								905
30 to 34	71	116	99	189	397	127							999
35 to 39	86	117	95	177	369	427	98						1,369
40 to 44	100	124	110	255	445	411	468	191					2,104
45 to 49	62	85	107	195	388	312	303	423	111				1,986
50 to 54	43	31	40	73	167	183	210	190	197	43			1,177
55 to 59	22	9	14	34	54	62	100	107	89	42	17		550
60 to 64	6	5	3	5	10	23	30	29	39	22	10	5	187
65 to 69		3	1	2	4	1	4	2	5	6	3		31
70 & up	1		1	1	1		1		2			1	8
Totals	610	800	661	1,171	1,932	1,546	1,214	942	443	113	30	6	9,468

**Teachers' Retirement System**  
**Active Members - Full Time**  
**Distribution of Employees and Salaries as of July 1, 1994**  
**Average Annual Salaries - By Age Group - Males**

### Average Annual Salaries - By Age Group - Females

**Teachers' Retirement System**  
**Active Members - Full Time**  
**Distribution of Employees and Salaries as of July 1, 1994**  
**Annual Salaries in Thousands - By Age Group - Males**

### Annual Salaries in Thousands - By Age Group - Females

Age	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 +	Totals
< 25	181	1,501	455										2,137
25 to 29	673	3,615	3,052	4,841	2,124								14,304
30 to 34	268	1,789	1,771	3,812	9,267	3,395							20,302
35 to 39	465	1,726	1,667	3,550	8,516	12,157	3,062						31,143
40 to 44	416	1,658	1,820	5,189	10,842	12,100	15,196	6,771					53,990
45 to 49	199	1,135	1,866	4,006	9,713	9,510	10,209	14,960	4,092				55,688
50 to 54	193	360	771	1,472	4,223	5,558	7,044	6,674	7,275	1,535			35,104
55 to 59	72	90	208	581	1,238	1,785	3,097	3,724	3,157	1,536	621		16,110
60 to 64	17	16	55	92	223	691	913	988	1,419	767	350	165	5,696
65 to 69		51		5	63	35	117	72	183	191	112		830
70 & up	4		6	3	7		13		84			36	152
Totals	2,488	11,941	11,671	23,549	46,216	45,232	39,650	33,189	16,210	4,029	1,083	200	235,457

Table C-1  
(Continued)

**Teachers' Retirement System**  
**Active Members - Part Time**  
**Distribution of Employees and Salaries as of July 1, 1994**  
**Number of Employees - By Age Group - Males**

Age	0	1	2	3 to 4	5 to 9	Completed Years of Service					20 to 24	25 to 29	30 to 34	35 to 39	40 +	Totals
						10 to 14	15 to 19									
< 25	16	3	4													23
25 to 29	68	27	4	1	1											101
30 to 34	16	8	6	3	6	1										40
35 to 39	15	8	5	2	10	7										47
40 to 44	7	11	7	13	9	5	8				3					63
45 to 49	8	6	1	5	5	5	7				7	4				48
50 to 54	6	3	1	4	7	5	2				7	5				40
55 to 59	4	1		1		1	2				2	6	4			21
60 to 64	1	3	1	1	3	2	2					3	4	1		21
65 to 69		1										1				1
70 & up			1								19	1	8			2
Totals	141	71	30	30	41	26	21				19	19	8	1	0	407

**Number of Employees - By Age Group - Females**

Age	0	1	2	3 to 4	5 to 9	Completed Years of Service					20 to 24	25 to 29	30 to 34	35 to 39	40 +	Totals
						10 to 14	15 to 19									
< 25	43	12	10	1												66
25 to 29	128	64	27	19	10											248
30 to 34	53	42	22	24	27	17	1									186
35 to 39	68	48	44	67	45	34	9									315
40 to 44	71	79	50	87	68	28	22				16					421
45 to 49	44	42	52	59	50	26	19				17	7				316
50 to 54	26	15	24	30	28	24	11				8	3	4			173
55 to 59	6	4	9	12	16	11	6				4	4		1		73
60 to 64			1	8	11	3	7				3	7	2	1		36
65 to 69		4	2	2	3	1	1				1					14
70 & up			1	1	3											5
Totals	439	310	242	310	261	144	76				49	14	6	2	0	1,853

Total of Above  
Part Time Participants with Salary Less Than \$1,000  
Total Part Time Participants

2,260  
377  
2,637



## Teachers' Retirement System

### Table C-2

#### Distribution of Inactive Lives

Members Receiving Service Retirement Benefits as of July 1, 1994

<u>Age</u>	<u>Number of Persons</u>		<u>Annual Benefits in Thousands</u>		<u>Average Annual Benefits</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
<50	35	22	\$ 590	\$ 350	\$16,845	\$15,922
50 to 54	262	146	4,325	1,938	16,507	13,274
55 to 59	430	268	7,710	3,568	17,930	13,313
60 to 64	617	428	10,426	4,739	16,897	11,071
65 to 69	536	504	7,996	5,182	14,919	10,282
70 to 74	414	513	5,604	4,166	13,536	8,122
75 to 79	252	587	2,533	4,129	10,050	7,033
80 to 84	150	539	1,252	2,942	8,349	5,459
85 to 89	81	446	472	2,168	5,828	4,862
90 and up	<u>43</u>	<u>242</u>	<u>254</u>	<u>1,240</u>	<u>5,915</u>	<u>5,124</u>
Total	2,820	3,695	\$41,162	\$30,423	\$14,596	\$ 8,233

Members Receiving Disability Retirement Benefits as of July 1, 1994

<u>Age</u>	<u>Number of Persons</u>		<u>Annual Benefits in Thousands</u>		<u>Average Annual Benefits</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
<50	9	10	\$ 69	\$ 64	\$ 7,642	\$ 6,423
50 to 54	11	10	95	68	8,610	6,846
55 to 59	14	19	116	166	8,318	8,715
60 to 64	12	11	120	68	10,039	6,143
65 to 69	12	18	93	116	7,720	6,440
70 to 74	7	17	62	84	8,882	4,953
75 to 79	9	23	63	102	6,984	4,415
80 to 84	4	10	34	51	8,498	5,061
85 to 89	1	7	4	32	4,280	4,578
90 and up	<u>      </u>	<u>5</u>	<u>      </u>	<u>26</u>	<u>      </u>	<u>5,189</u>
Total	79	130	\$ 656	\$ 776	\$ 8,308	\$ 5,970

## Teachers' Retirement System

**Table C-2**  
(Continued)

### Distribution of Inactive Lives

Survivors of Deceased Retired Members as of July 1, 1994

Age	Number of Persons		Annual Benefits in Thousands		Average Annual Benefits	
	Male	Female	Male	Female	Male	Female
<50	7	12	\$ 30	\$ 67	\$ 4,298	\$ 5,590
50 to 54	4	7	15	91	3,758	12,964
55 to 59	5	15	17	146	3,486	9,736
60 to 64	6	28	45	292	7,569	10,420
65 to 69	5	39	26	360	5,218	9,219
70 to 74	9	70	51	517	5,622	7,389
75 to 79	5	49	26	415	5,285	8,469
80 to 84	14	54	62	298	4,401	5,514
85 to 89	4	52	18	279	4,539	5,370
90 and up	<u>5</u>	<u>20</u>	<u>21</u>	<u>106</u>	<u>4,294</u>	<u>5,292</u>
Total	64	346	\$ 312	\$ 2,570	\$ 4,880	\$ 7,428

Survivors of Deceased Active Members as of July 1, 1994

Age	Number of Persons		Annual Benefits in Thousands		Average Annual Benefits	
	Male	Female	Male	Female	Male	Female
<50	36	58	\$ 117	\$ 243	\$ 3,257	\$ 4,195
50 to 54	13	27	45	258	3,476	9,568
55 to 59	7	24	28	178	3,980	7,418
60 to 64	6	31	39	280	6,508	9,030
65 to 69	13	32	65	293	5,013	9,156
70 to 74	10	34	59	265	5,605	7,797
75 to 79	5	13	23	61	4,556	4,654
80 to 84	2	16	10	89	5,037	5,578
85 to 89	2	8	10	39	5,139	4,826
90 and up	<u>10</u>	<u>6</u>	<u>46</u>	<u>35</u>	<u>4,650</u>	<u>5,833</u>
Total	104	249	\$ 440	\$ 1,741	\$ 4,233	\$ 6,992

## Teachers' Retirement System

**Table C-2**  
(Continued)

### Distribution of Inactive Lives

Terminated Vested Members as of July 1, 1994  
Number of Persons

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
<25	0	1	1
25 to 30	0	2	2
30 to 35	14	54	68
35 to 40	36	133	169
40 to 45	68	160	228
45 to 50	100	154	254
50 to 55	76	122	198
55 to 60	62	75	136
60 to 65	18	21	39
65 and up	<u>4</u>	<u>6</u>	<u>10</u>
Total	378	727	1,105

Child Beneficiaries as of July 1, 1994\*  
Number of Persons

<u>Age</u>	<u>Number</u>
<5	0
5 to 6	1
7 to 8	3
9 to 10	3
11 to 12	5
13 to 14	11
15 to 16	8
17 and up	<u>12</u>
Total	43

\* Child Beneficiaries all receive \$200 per month, for a total of \$103,200 per year.

## **APPENDIX D**

### **Comparative Schedules**

This section contains tables that summarize the experience of the System shown in present and past valuation reports.

Table D-1 shows a summary of the active members and the annuitants covered as of the various valuation dates.

Table D-2 summarizes the contribution rates determined by each annual actuarial valuation.



# Teachers' Retirement System

Table D-1

## Membership Data

Valuation Date (July 1)	Active Members					Average Years of Service
	Full-Time Members	Part-Time Members	Total Contributing Members	Annual Full- Time Salaries in Thousands	Average Full- Time Annual Salary	Average Age
1987	13,105	1,955	15,060	\$340,481	\$25,981	*
1989	12,546	2,541	15,087	\$339,866	\$27,090	*
1992	13,502	3,141	16,643	\$401,092	\$29,706	11.6
1994	14,938	2,637	17,575	\$416,968	\$27,914	11.0

Valuation Date (July 1)	Annuitants		
	Number	Annual Benefits In Thousands	Average Annual Benefit
1987	6,036	\$43,236	\$7,163
1989	6,330	\$49,546	\$7,827
1992	6,927	\$63,483	\$9,165
1994	7,530	\$78,183	\$10,383

\*Not Available

# Teachers' Retirement System

Table D-2

## Contribution Rates

Valuation Date (July 1)	Normal Cost Rate		UAL Rate	Total Employer Rate	Total Rate
	Employee	Employer			
1989*	7.044%	1.783%	5.676%	7.459%	14.503%
1992	7.044%	2.832%	4.627%	7.459%	14.503%
1994	7.044%	2.450%	5.020%	7.470%	14.514%

\*Valuation performed by Hendrickson, Miller & Associates, Inc.

## **APPENDIX E**

### **Glossary**

The following definitions are largely excerpts from a list adopted in 1981 by the major actuarial organizations in the United States. In some cases the definitions have been modified for specific applicability to the Teachers' Retirement System. Defined terms are capitalized throughout this Appendix.

#### **Actuarial Assumptions**

Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disablement, and retirement; changes in compensation, rates of investment earnings, and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; and other relevant items.

#### **Actuarial Cost Method**

A procedure for determining the Actuarial Present Value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Liability.

#### **Actuarial Gain (Loss)**

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions during the period between two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

#### **Actuarial Present Value**

The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

#### **Actuarial Valuation**

The determination, as of a valuation date, of the Normal Cost, Actuarial Liability, Actuarial Value of Assets, and related Actuarial Present Values for a pension plan.

#### **Actuarial Value of Assets**

The value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation.

#### **Actuarially Equivalent**

Of equal Actuarial Present Value, determined as of a given date with each value based on the same set of Actuarial Assumptions.

**Amortization Payment**

That portion of the pension plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Liability.

**Entry Age Actuarial Cost Method**

A method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit ages. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present not provided for at a valuation date by the Actuarial Present Value of future Normal Costs is called the Actuarial Liability.

**Normal Cost**

That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

**Actuarial Liability**

That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of pension plan benefits and expenses which is not provided for by future Normal Costs.

**Unfunded Actuarial Liability**

The excess of the Actuarial Liability over the Actuarial Value of Assets.

**Accrued Benefit**

The amount of an individual's benefit (whether or not vested) as of a specific date, determined in accordance with the terms of a pension plan and based on compensation and service to that date.

**Projected Benefits**

Those pension plan benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits.

**Unaccrued Benefit**

The excess of an individual's Projected Benefits over the Accrued Benefits as of a specified date.





# **STATISTICAL SECTION**

**REVENUES BY SOURCE**

**EXPENSES BY TYPE**

**CONTRIBUTION RATES**

**ACTIVE MEMBERSHIP**

**RETIRED MEMBERSHIP**

**LOCATION OF BENEFIT RECIPIENTS**





## Revenues By Source

<u>Year</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Investment Income</u>	<u>Other</u>	<u>Total</u>
1984 - 1985	\$26,630,671	\$26,104,746	\$35,357,881		\$88,093,298
1985 - 1986	27,603,165	27,322,124	45,404,420		100,329,709
1986 - 1987	28,883,825	28,401,842	48,820,651		106,106,318
1987 - 1988	28,800,383	28,324,488	51,877,012		109,001,883
1988 - 1989	28,995,301	28,657,283	58,742,650		116,395,234
1989 - 1990	30,549,466	30,646,428	63,748,295		124,944,189
1990 - 1991	32,611,152	33,274,827	67,033,563		132,919,542
1991 - 1992	34,677,311	35,759,120	70,680,973		141,117,404
1992 - 1993	37,249,490	38,088,280	78,375,511		153,713,281
1993 - 1994	38,748,884	39,164,487	73,073,714		150,987,085

## Expenses By Type

<u>Year</u>	<u>Benefit Payments</u>	<u>Withdrawals</u>	<u>Admin. Expenses (1)</u>	<u>Investment Expenses</u>	<u>Other</u>	<u>Total</u>
1984 - 1985	\$32,498,499	\$4,812,090	\$334,023	\$104,330		\$37,748,942
1985 - 1986	37,633,013	4,647,911	378,827	133,979		42,793,730
1986 - 1987	40,292,222	4,807,517	442,966	125,607		45,668,312
1987 - 1988	44,001,287	6,994,554	443,786	310,975		51,750,602
1988 - 1989	47,214,491	5,213,596	474,560	179,743		53,082,390
1989 - 1990	51,033,464	8,561,498	520,926	166,134		60,282,022
1990 - 1991	54,869,861	4,243,421	485,918	191,692		59,790,892
1991 - 1992	60,763,611	3,307,312	684,415	180,920		64,936,258
1992 - 1993	66,012,320	3,971,610	581,165	188,655		70,753,750
1993 - 1994	70,580,682	4,156,137	647,480	198,684		75,582,983

(1) Includes depreciation after fiscal year 1984

## **Teachers' Retirement System**

### **Contribution Rates**

#### **EMPLOYEE**

1937 - 1973	5.000%
1973 - 1975	5.125%
1975 - 1977	6.125%
1977 - 1983	6.187%
1983 - 1993	7.044%

#### **EMPLOYER**

1937 - 1945	NONE
1945 - 1959	3.750%
1959 - 1969	4.000%
1969 - 1971	4.500%
1971 - 1975	5.125%
1975 - 1977	6.250%
1977 - 1981	6.312%
1981 - 09/30/81	6.432%
10/01/81 - 06/30/83	6.463%
1983 - 1985	7.320%
1985 - 1989	7.428%
1989 - 1993	7.459%
01/01/94 -	7.470%

Unless otherwise noted, contribution rate changes occur on July 1.



## Teachers' Retirement System

### Membership

<u>Period Ended</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Inactive Non-vested</u>	<u>Total</u>
June 30, 1985	15,579	715	2,245	18,238
June 30, 1986	15,951	695	2,362	19,008
June 30, 1987	15,084	964	3,090	19,138
June 30, 1988	15,041	1,025	3,444	19,510
June 30, 1989	15,087	1,074	3,765	19,926
June 30, 1990	15,702	1,137	4,080	20,919
June 30, 1991	16,281	1,102	4,469	21,852
June 30, 1992	16,643	1,167	4,890	22,700
June 30, 1993	17,211	1,171	5,375	23,757
June 30, 1994	17,439	1,113	5,761	24,313

### Retired Members and Benefit Recipients

<u>Period Ended</u>	<u>Retirement</u>	<u>Survivors</u>	<u>Disability</u>	<u>Child Benefits</u>	<u>Total</u>
June 30, 1985	4,936	302	235	51	5,524
June 30, 1986	5,158	311	239	58	5,766
June 30, 1987	5,295	311	245	58	5,909
June 30, 1988	5,475	320	249	59	6,103
June 30, 1989	5,743	332	255	59	6,389
June 30, 1990	5,903	334	265	56	6,558
June 30, 1991	5,882	339	261	46	6,528
June 30, 1992	6,042	343	263	47	6,695
June 30, 1993	6,227	355	267	50	6,899
June 30, 1994	6,531	358	271	38	7,198

# LOCATION OF BENEFIT RECIPIENTS

Alabama	7	New Jersey	2
Alaska	21	New Mexico	26
Arizona	155	New York	13
Arkansas	10	North Carolina	8
California	155	North Dakota	76
Colorado	62	Ohio	11
Connecticut	5	Oklahoma	9
Florida	30	Oregon	123
Georgia	6	Pennsylvania	10
Hawaii	3	South Carolina	6
Idaho	92	South Dakota	24
Illinois	11	Tennessee	7
Indiana	6	Texas	29
Iowa	13	Utah	35
Kansas	10	Viginia	9
Kentucky	1	Washington	264
Louisiana	2	West Virginia	2
Maine	6	Wisconsin	25
Maryland	4	Wyoming	46
Massachusetts	4	APO	4
Michigan	8	Australia	1
Minnesota	58	Canada	11
Mississippi	1	Holland	1
Missouri	16	Puerto Rico	1
Montana	5,600	Scotland	1
Nebraska	8	Thailand	<u>1</u>
Nevada	44	TOTAL	<u>*7,083</u>
New Hampshire	1	*115 receipents recieve two benefits.	



# Montana

## SYMBOLS



- 1 Grizzly Bear
- 2 Maiasaura, state fossil
- 3 Ponderosa Pine
- 4 Cutthroat trout
- 5 Bluebunch wheatgrass
- 6 Bitterroot flower
- 7 Agate and Sapphire gemstones
- 8 Western meadowlark
- 9 "Oro y Plata," state seal

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200 copies of this public document were published at an estimated cost of \$2.85 per copy, for a total cost of \$570.00, which includes \$570.00 for printing and \$.00 for distribution.